CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

May 7, 2008

H.R. 5715
Ensuring Continued Access to Student Loans Act of 2008

As cleared by the Congress on May 1, 2008

SUMMARY

H.R. 5715 would:

- Alter repayment and eligibility terms on Parent Loans for Undergraduate Students (PLUS),
- Increase the annual and aggregate borrowing limits on unsubsidized loans,
- Make changes to the Academic Competitiveness Grant and SMART Grant Programs,
- Give the Department of Education temporary authority to purchase guaranteed loans from private lenders, and
- Make changes to the lender-of-last-resort program.

CBO estimates that the act would decrease direct spending by $32 million over the 2008-2013 period and by $222 million over the 2008-2018 period. (Savings through 2017, the last year for enforcement of the current budget resolution, would total $182 million.) The act would have no impact on revenues.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 5715 is shown in the following table. The costs of this legislation fall within budget function 500 (education, training, employment, and social services).

	By Fiscal Year, in Millions of Dollars												
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2008-2013	2008-2018
CHANGES IN DIRECT SPENDING													
Changes to PLUS Program													
Estimated Budget Authority	-35	-75	-75	-80	-85	-95	-100	-110	-115	-125	-135	-445	-1,030
Estimated Outlays	-20	-55	-65	-70	-75	-85	-90	-95	-105	-110	-115	-370	-885
Raise Limits on Unsubsidized Loans													
Estimated Budget Authority	-90	-170	-15	65	75	60	65	65	75	80	85	-75	295
Estimated Outlays	-55	-130	-60	35	65	60	55	60	65	70	75	-85	240
ACG/SMART Grant Programs													
Estimated Budget Authority	0	0	0	0	0	0	0	0	0	0	0	0	0
Estimated Outlays	0	84	168	169	2	0	0	0	0	0	0	423	423
Purchase of Guaranteed Loans													
Estimated Budget Authority	0	*	0	0	0	0	0	0	0	0	0	*	*
Estimated Outlays	0	*	0	0	0	0	0	0	0	0	0	*	*
Lender of Last Resort													
Estimated Budget Authority	*	*	0	0	0	0	0	0	0	0	0	*	*
Estimated Outlays	*	*	0	0	0	0	0	0	0	0	0	*	*
Total Changes													
Estimated Budget Authority	-125	-245	-90	-15	-10	-35	-35	-45	-40	-45	-50	-520	-735
Estimated Outlays	-75	-101	43	134	-8	-25	-35	-35	-40	-40	-40	-32	-222

Note: PLUS = Parent Loans for Undergraduate Students; ACG = Academic Competitiveness Grant; * = less than $500,000.

BASIS OF ESTIMATE

As required under the Federal Credit Reform Act of 1990, the costs of student loans are estimated on a net-present-value basis.

Changes to PLUS Program

The act would make two changes to the PLUS program. First, it would allow parents to defer payment on their PLUS loans until six months after the dependent borrower leaves school. Under current law, parents must begin repaying the loan 60 days after disbursement. CBO projects that approximately10 percent of parent borrowers would take advantage of this deferment before repaying their loans. Interest rates on parent loans range between 7.9 percent and 8.5 percent. Deferred interest on those loans would accrue and be capitalized, increasing receipts to the federal government. Thus, CBO estimates the provision would decrease direct spending by $370 million over the 2008-2013 period and $885 million over the 2008-2018 period.

In addition, H.R. 5715 would allow a lender to determine that a potential PLUS borrower who is delinquent on home mortgage or medical payments between January 1, 2007, and December 31, 2009, for fewer than 181 days (and might otherwise be deemed not creditworthy) to qualify for the PLUS program due to extenuating circumstances. Based on information from lenders and other groups, CBO estimates the provision would have a negligible impact on direct spending.

Raise Limits on Unsubsidized Loans

H.R. 5715 would increase the borrowing limits on unsubsidized loans for undergraduate students by $2,000 per year and raise aggregate borrowing limits to accommodate those increases.

Based on data from the National Student Loan Data System, the National Postsecondary Student Aid Study (NPSAS), and other sources, CBO estimates those changes would increase the volume of unsubsidized loans by more than $1 billion in fiscal year 2008; that increase would grow to nearly $7 billion in fiscal year 2018. CBO expects that the volume of loans made to parents in the PLUS program would decrease as they shift some of their borrowing to the unsubsidized loan program, which has a lower interest rate. CBO estimates those changes would decrease direct spending by $85 million over the 2008-2013 period and increase direct spending by $240 million over the 2008-2018 period.

Academic Competitiveness Grant and SMART Grant Programs

The act would make several changes to the Academic Competitiveness Grant and SMART Grant Programs, including expanding eligibility to part-time students and eligible noncitizens. Currently, only full-time students who are U.S. citizens are eligible for grants. Based on data from NPSAS and other sources, CBO estimates those changes would increase outlays by $423 million over the 2009-2012 period.

Purchase of Guaranteed Loans

The act would grant temporary authority to the Secretary of Education to purchase guaranteed student loans from private lenders in the Federal Family Education Loans program. Subject to a requirement that purchases not have any net costs, if the Secretary determines that private capital is insufficient to make student loans, the Secretary may purchase student and parent loans, but not consolidation loans, originated between October 1, 2003, and July 1, 2009.

The Secretary must jointly determine with the Secretary of Treasury and the Director of the Office of Management and Budget that the purchase of loans would not result in any net cost to the government and jointly publish in the *Federal Register* prior to purchasing the method used in making such a determination. Based on those requirements, CBO believes that the likelihood of increased costs resulting from the purchase of loans is equal to the likelihood of increased savings. Therefore, CBO estimates the provision would have a negligible impact on direct spending.

Lender of Last Resort

H.R. 5715 also would make two changes in the lender-of-last-resort program, which provides loans to students who otherwise are unable to obtain a loan under the regular loan application process. First, it would require guaranty agencies to carry out the functions of the lender-of-last-resort program on a school-wide basis rather than an individual-borrower basis when requested by an institution that meets standards set out by the Secretary. CBO estimates that this provision would have a negligible impact on direct spending.

Second, it would clarify that the Secretary of Education has the authority to advance federal funds to guaranty agencies serving as lenders of last resort who do not have sufficient capital to originate guaranteed loans. CBO estimates this provision would have no impact on direct spending because the Department of Education has this authority under current law and has published regulations governing the lender-of-last-resort authority.

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